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SUBJECT: SECENSETTER FOR OCT 31 VISIT OF PM KALVITIS TO
WASHINGTON DC

Classified By: Charge d'affaires a.i. Stuart M. Seldowitz. Reason: 1.4
(d)

11. (C/NF) Summary: Latvian PM Kalvitis comes to Washington Oct. 31 - Nov. 1 politically weakened but still enormously influential. Latvia's longest serving PM in the post-Soviet era, Kalvitis is enmeshed in a political battle over the dismissal of the anti-corruption chief and with growing voter angst on the economy. Kalvitis wants this trip to show that he is still a major player and, for all his faults, it hard to see a viable candidate for PM in the short term that would work more closely with us than Kalvitis has. He needs to hear from Washington our concerns on rule of law issues in Latvia and our encouragement for Latvians efforts in Afghanistan. He will want to discuss a range of issues related to Russia, including energy and CFE, and challenges the Latvian banking sector face in working with US financial institutions. And, of course, visa waiver. End summary.

Political situation/rule of law

12. (C/NF) When PM Kalvitis' office began thinking of this trip early in the year, it was conceived as opening a new era in Latvian foreign policy. With Vaira Vike-Freiberga out of the presidency, there would be room for the the PM to play a role in foreign policy that wasn't possible in the shadow of VVF. At the time, the coalition the PM led seemed rock solid and it was entirely conceivable that Kalvitis, the first Latvian PM ever to continue in office after an election, would be able to remain head of government for the entire life of this parliament through 2010 if he wanted. Kalvitis had last visited Washington in 2005, so this visit would highlight the change in his role.

13. (C/NF) Since then the situation has changed dramatically. Although Kalvitis has much greater influence in foreign policy with VVF's departure, his domestic support has weakened considerably. This is mostly due to Latvia's economic challenges. While growth remains robust, inflation is running at over 11 percent and wages are spiraling higher, with no signs of a slowdown in either. On top of that, a public rebuke from VVF on attempts to change the laws governing security institutions, corruption scandals involving people close to the PM and senior coalition figures, a perception that Zatlers was elected to carry out the will of the oligarchs and a view that the PM has responded with arrogance to all of the above have led to a situation in which Kalvitis, one of Latvia's most popular figures a year ago, finds himself with polls showing his negatives running 25 - 30 percent higher than his positive ratings.

14. (C/NF) All of this has been working its way into the

political mess in which Latvia finds itself. In late-September, Kalvitis dismissed the head of the anti-corruption agency (KNAB), Aleksejs Loskutovs. The PM said that an audit of KNAB showed serious irregularities and Loskutovs must be held responsible. But the State Auditor said publicly that the violations were minor and far more serious ones were found at other ministries where no similarly tough action was taken. The Prosecutor General, a highly respected figure here, has also said that he has found no evidence of criminal wrongdoing, that he thinks dismissing Loskutovs is excessive, and has questioned the legal basis for Kalvitis to suspend Loskutovs from office pending a parliamentary vote on removal. As this has played out, Kalvitis has found fewer and fewer friends by his side. FM Pabriks has resigned, Local government minister Stokenbergs was fired, and coalition members are showing at best tepid support for Kalvitis in public comments.

15. (S/NF) Plenty of people believe that the real reason for the dismissal of Loskutovs was a combination of an attempt to stop the KNAB from carrying out investigations of Latvia's oligarchs and politically connected people and a desire to block a large fine against Kalvitis' People's Party for violations of campaign financing rules in the October 2006 parliamentary elections. We agree in part, but we think it is part of a larger operation. The country team, on basis of multiple credible reports and our discussions with people in and out of government, continues to believe that the ultimate goal is to create greater avenues for political control and manipulation of law enforcement investigations in the guise of ensuring better oversight of security and law enforcement institutions. This could result in a single, Russian FSB style agency with dominance over all spheres of internal security that would be subject to political influence without checks and balances from other agencies. This would have

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negative consequences all aspects of legal and business transparency and, as we have reported for some time, we fear that a consequence (likely unintended) of that effort would be to significantly weaken the protections on intelligence information that the Latvians receive from us and other NATO allies.

16. (C/NF) For this reason, we believe that the number one message that Kalvitis needs to hear in Washington is that while we greatly value Latvia as a NATO ally, this is an bilateral relationship and an alliance based on common values, including the rule of law, and we expect Latvia will continue its hard work to strengthen the rule of law and combat corruption. Where Latvia would like help, we stand ready to assist. Kalvitis may talk about his desire to streamline Latvian law enforcement agencies to avoid duplication of effort. We support the idea in principle, but as noted above, we want to make sure that this does not become a vehicle for permitting political interference in sensitive cases or for consolidation of power into a single agency at the executive level.

17. (C/NF) As prime minister, Kalvitis has been very pro-American in his orientation. He studied briefly in Wisconsin, regularly vacations in the US, and his oldest son is studying at an American school known for turning out hockey players (ice hockey is Kalvitis' true passion in life). For all the challenges we face with him, it is hard for us to see in the short term a viable candidate for PM who would be more open to working with us and we can see plenty who would be far more resistant to it. We have seen Kalvitis stand up to the oligarchs in the past, but we believe he does not feel empowered to do that right now. Clear messages from Washington of our concern combined with statements of support for him could change that.

NATO issues

18. (C/NF) Latvia continues to be a committed member of the

Alliance and Washington interlocutors should reinforce this to Kalvitis. Latvia has increased its contributions in Afghanistan and is planning, in cooperation with its state partner the Michigan National Guard, to stand up an OMLT there next year. Given Latvia's size, it cannot take on a significantly larger mission within ISAF and it always needs partners for any deployment. In this context, Kalvitis should hear that the US remain committed to the FMF funding that helps them develop their expeditionary capabilities. The Latvians seem happy with the current agreement on air policing for the Baltics, so that issue is not likely to arise.

Russia - bilateral, energy, CFE

¶9. (C/NF) The relationship with Russia permeates almost all aspects of Latvian foreign policy and much of its domestic policy as well. Kalvitis deserves credit for stabilizing the bilateral relationship with Russia. He has since coming to office focused on taking steps to normalize the relationship. Starting with the visits of the Russian Patriarch and former President Yeltsin to Riga, to agreement on an intergovernmental commission following nearly 12 years of discussion, to signing of the Latvia-Russia border treaty, Kalvitis has led the way in putting the relationship on a more stable footing. In doing so, Kalvitis and his staff have made good use of partners including us, the Germans, and, to a lesser degree, the European Commission to move things with Moscow. The pinnacle of this would be the planned visit of Lavrov to Riga November 14 to exchange instruments of ratification on the border treaty. This would be the first visit of a Russian FM to Riga since the restoration of independence.

¶10. (C/NF) There are plenty of rumors in Latvia that he placed this focus on Russia for financial reasons, perhaps even personal ones. We cannot refute those claims, but we think they sell Kalvitis a bit short. In our discussions with him, he seems genuinely to believe that Latvia must have a normal relationship with Russia and that membership in the EU and NATO provides Latvia the confidence and security to negotiate with Moscow on more even terms.

¶11. (C/NF) Plenty of problems remain in the relationship and one aspect on which Kalvitis has focused is energy. Latvia is wholly dependent on Russia for gas. On electricity, Latvia has hydro resources and the Ignalina nuclear plant in Lithuania, but with average rain fall dropping and Ignalina due to close in 2009, Latvia could become more dependent on

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Russia for electricity. Kalvitis has been frustrated with the machinations over a new Ignalina, and fears that Lithuania is fully prepared to leave Latvia out in the cold on this. He has shown at least some interest in biofuels due to Latvia's large forests. He had hoped to visit the National Renewable Energy Lab on this visit, but the political situation precludes that. He will be interested in our views on energy security and how we are working to reduce the Russian hammer lock on supplies in the region.

¶12. (C/NF) Kalvitis will also raise Latvian views on Russian behavior and seek an update on our discussions with Moscow on CFE and missile defense. On CFE, the Latvians are nervous that we will force them to make concessions before they even join the treaty. They understand that they can help in a larger process to bring Moscow back to the treaty, but don't want to be the only bargaining chip on the table. Kalvitis has been personally very supportive of missile defense, publicly announcing his willingness for Latvia to play a role if useful. He will wonder if developments in Poland and the recent 2 plus 2 in Moscow have changed our thinking on MD.

Banks

¶13. (C/NF) A major goal for Kalvitis on this trip is to try

to get some clarity on US views on the Latvian banking sector. This is something that is important to his domestic political backers, which gives it added urgency for him. Following our sanctioning of two Latvian banks in 2005 under section 311 of the Patriot Act for lax anti-money laundering controls, Kalvitis, Latvian regulators and banks took a number of steps to clean up the system. In 2006, we said that the Latvians had done a great job, but one bank remained under sanction due to concerns about its ownership. This summer, two large American banks closed corresponding accounts with Latvia after their US regulators expressed concerns about Latvia's banking sector. The Latvians feel that they have done everything we asked and they can't shake this reputation. They are willing to work with us to address our concerns, but complain they don't know what those concerns are. An advisor to Kalvitis told us in confidence that the PM believes that we cut a deal with the Russians to squeeze Latvian banks which are doing a fair amount of business in the FSU and compete with Russian banks.

Visas

¶14. (C/NF) Kalvitis will also seek information on efforts to bring Latvia into the visa waiver program, the aspect of the bilateral relationship by which most Latvians judge the strength of the relationship. He will express appreciation for administration efforts to date but ask about next steps. There is a strong rumor in the GOL that we will soon announce that Estonia and the Czech Republic will join the program and we have been unable to shake that. We recommend that people he meet with simply lay out the facts of what is possible under the new law and hope that endless repetition will allow the Latvians to better understand the situation.

Liepajas Metalurgs

¶15. (U) Kalvitis may raise the issue of US countervailing duties against importation of Latvian steel rebar. The main producer, Liepajas Metalurgs, is Latvia's largest private employer and the company claims that the sanctions have cost them jobs. As we saw with former President Vike-Freiberga's visit in May, when any senior Latvian travels to the states, the company pushes hard for this to be raised at a political level. Repeated attempts on our part to get the Latvians to engage with Congress on this issue have met with only limited success. They continue to feel the executive branch is the best place to raise this.
SELDOWITZ